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GENERAL COMMITTEES

Public Bill Committee

FINANCE BILL

(Except clauses 5, 15 and 25 and certain new clauses and new schedules)

Fourth Sitting

Thursday 19 October 2017

(Afternoon)

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PBC (Bill 102) 2017 - 2019

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The Committee consisted of the following Members:

Chairs: Mr George Howarth, †Mr Charles Walker

† Afolami, Bim *(Hitchin and Harpenden)* (Con)
† Blackman, Kirsty *(Aberdeen North)* (SNP)
† Burghart, Alex *(Brentwood and Ongar)* (Con)
† Cleverly, James *(Braintree)* (Con)
† Creasy, Stella *(Walthamstow)* (Lab/Co-op)
† Dodds, Anneliese *(Oxford East)* (Lab/Co-op)
† Dowd, Peter *(Bootle)* (Lab)
† Fernandes, Suella *(Fareham)* (Con)
† George, Ruth *(High Peak)* (Lab)
† Ghani, Ms Nusrat *(Wealden)* (Con)
† Hopkins, Kelvin *(Luton North)* (Lab)
† Hughes, Eddie *(Walsall North)* (Con)
† Lee, Ms Karen *(Lincoln)* (Lab)
† Linden, David *(Glasgow East)* (SNP)
† Maclean, Rachel *(Redditch)* (Con)
† O'Brien, Neil *(Harborough)* (Con)
† Smith, Jeff *(Manchester, Withington)* (Lab)
† Stride, Mel *(Financial Secretary to the Treasury)*
† Stuart, Graham *(Beverley and Holderness)* (Con)

Colin Lee, Jyoti Chandola, *Committee Clerks*

† attended the Committee

Public Bill Committee

Thursday 19 October 2017

(Afternoon)

[MR CHARLES WALKER *in the Chair*]

Finance Bill

(Except clauses 5, 15 and 25 and certain new clauses and new schedules)

Clause 29

DEEMED DOMICILE: INCOME TAX AND CAPITAL GAINS TAX

2 pm

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

That schedule 8 be the Eighth schedule to the Bill.

Clause 30 stand part.

Clause 31 stand part.

That schedule 9 be the Ninth schedule to the Bill.

Clause 32 stand part.

New clause 3—*Deemed domicile: review of protection of overseas trusts*—

"(1) Within fifteen months of the passing of this Act, the Commissioners for Her Majesty's Revenue and Customs shall complete a review about the operation of the provisions for the protection of overseas trusts in relation to deemed domicile.

(2) The review shall in particular consider—

(a) the effects of those provisions on the Exchequer,

(b) the behavioural effects of those provisions, and

(c) the effects on the matters specified in paragraphs (a) and (b) if those provisions were repealed.

(3) For the purposes of this section, "the provisions for the protection of overseas trusts" means the provisions inserted by paragraphs 18 to 38 and 40 of Schedule 8 to this Act.

(4) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons within three months of its completion."

This new clause requires a review to be undertaken of the effects of the provisions for protecting overseas trusts from the new provisions in relation to deemed domicile.

Peter Dowd (Bootle) (Lab): As ever, it is a pleasure to work under your stewardship, Mr Walker, and your perfect pronunciation of the word "schedule".

I would like to deal with the Government's overall intention behind this group of clauses and schedules reforming non-domiciled status. Under the measures being introduced through the Bill, an individual who has been resident in the UK for 15 out of the last 20 years will be considered UK-domiciled for the purposes of income tax, capital gains tax and inheritance tax. From appearances, one might think that overall the Government are finally doing away with non-dom status, but that is far from fact.

The changes in the measures are superficial—one could even say artificial—and designed to give the impression that the Government are seriously clamping down on tax avoidance. Why else would an exemption be built into the measures for offshore trusts? Another question is: why else would the Government have given a grace period for those non-doms affected to get an offshore trust if they do not have one already? Another question begging for an answer is: why else would the Government have actively signposted the changes for non-doms, which has set hares running? It seems to me that those are things that the architect of the measures would do if they were of a mind to completely undermine the measures' effectiveness. They close one loophole and—hey presto!—create another. Put a new coat of paint on it and no one will notice—job done.

I of course accept that some people will be caught by the changes, but I imagine that it will be the few—and "few" is the operative word—who cannot afford the financial advice fees and legal fees to set up an offshore trust. Once again, we are talking about low-hanging fruit. In my opinion and that of some of my colleagues, this is indicative of the Government's tax policy. They are doing this rather than tackling tax avoidance undertaken by wealthy individuals who are—I will mix my rodent analogies here—squirrelling their money away in offshore trusts, or large multinational corporations that play cat and mouse with Her Majesty's Revenue and Customs, with, in this situation, HMRC being the mouse and the one that rarely roars to boot. It is happening daily: certain people are not paying their fair share, and the Government are instead attempting to squeeze further taxes out of everyone else. That is no doubt motivated in part by the dwindling resources of HMRC, whose staff levels have been cut by 17% since 2010. The shame that HMRC does not have the resources to clamp down on the use of offshore trusts is part of the motivation behind these measures, but I am not convinced that the Government have the inclination to do so, either.

The delayed timetabling of the measures will also have an impact on their effectiveness. They were first proposed in the summer Budget 2015, they were consulted on in late 2016, and they were meant to be debated and come into effect in March 2017. Of course, we had an unnecessary snap election, whose mother was hubris and whose father turned out to be pyrrhic. As Plutarch noted—it is always worthwhile getting in a quote from Plutarch:

> "If we are victorious in one more battle with the Romans, we shall be utterly ruined."

I ask Government Members opposite to bear that in mind when the next election comes.

Graham Stuart (Beverley and Holderness) (Con): And in Latin?

Peter Dowd: I actually was going to bring that, but the Chair has difficulty enough pronouncing English to check me on my Latin.

Added to that, we had a zombie Parliament throughout the summer, with the Minister announcing that the measures would not be brought back until September. In total, that means that the best-advised non-doms will have had two years' advance notice, while even those with little to no advice would have had seven months to prepare, even without the Government's grace period. That is why the Opposition are proposing that, at the very least, the Government conduct—the Minister will not be surprised to hear this—a review to assess the impact of leaving in the exemption for offshore trusts on the effectiveness of the measures.

Our opposition to these measures is well noted. I raised concerns over them on Second Reading of the Finance Act 2017. We raised them further in private discussions with the Government, to no avail, as well as during the Ways and Means resolutions debate and on Second Reading of the Bill, so our view is fairly well laid out. What we want is genuinely not unrealistic or far removed from the observations of most members of the public, which is, in short, the removal of the exemption for offshore trusts from these clauses and schedules. It is simply lubricious—I was thinking of another word—to introduce measures abolishing non-dom status while at the same time creating further loopholes. I would have used "disingenuous", but no doubt you would have ruled me out of order, Mr Walker.

I ask the Minister once more, as I have at every stage of the Bill, to remove the exemption for offshore trusts. If the Government are truly committed to abolishing non-dom status and not just paying lip service to it, the Minister should have no problem doing so.

Ruth George (High Peak) (Lab): Does my hon. Friend agree that creating this loophole, which enables non-domiciled individuals who are coming back into UK domicile to simply send funds to offshore trusts, creates work for accountants and tax specialists without actually assisting the Treasury or the Government?

Peter Dowd: That is a very good point. It is also actually creating an awful lot of work for us, given the amount of times we have asked for this to be dealt with. It is getting pretty repetitive. I do not know how many times we have to ask for this to be dealt with once and for all; no doubt we will come back to it time and again until something is sorted out.

This is not only about non-doms using offshore trusts to hide their money and essentially subvert the measures in the clause; it is about the source of the money and its value, particularly when we are discussing how to clamp down on tax avoidance. The Government should consider a register of offshore trusts, ensuring that non-doms have to register the sources of their property and income. Again, that request is not unreasonable to the public or to our constituents who elect and send us to this place, all of whom have to register the sources of their income with HMRC. In fact, a number of the measures in the Bill will require even more financial information to be passed on to HMRC through the bulk collection of financial data by third parties. It seems to many people that there is one law for one group and another for the rest of us. That cannot be right.

Kelvin Hopkins (Luton North) (Lab): The issue of non-dom taxation has been going on for years. The reality is that Conservative Governments and perhaps even Labour Governments have not gone far enough to eliminate the problem by saying that these people are going to pay tax properly and not wriggle all the time. Does my hon. Friend agree that we have to get rid of a world where rich people live in Monaco in the south of France and fly in a couple of times a week in their private planes, working in the City and making billions, just to avoid tax, and that we should be making sure they pay their taxes and be looking after ordinary people?

Peter Dowd: What we need is a fair taxation system—that is the key. I do not think it is beyond the wit of this Government or any Government, for that matter, to deal with that. That is not to say that we have not moved some. That would not be appropriate. We have moved on.

The Financial Secretary to the Treasury (Mel Stride): In terms of having moved some, as the hon. Gentleman puts it, does he accept that with the current proposals we have gone much further in the direction he seeks than was the case under any previous Labour Government?

Peter Dowd: It is a moving feast. Dealing with tax avoidance is—to use the old hackneyed phrase—a process, not an event. That process, at different times over the decades, moves along at different paces and with varying levels of enthusiasm. We have to set the tone and send the message from this place that we will tackle tax avoidance wherever we see it occurring. We should all do that as robustly as we can. It is not a beauty contest between which party has done the most. The reality is that we all have to stick together in tackling tax avoidance. That is the reason for our proposal, which would move this process further on, regardless of what may or may not have happened in the past.

The contention between the Opposition and the Government on this part of the Bill highlights a fundamental problem with parliamentary procedure around financial legislation. Some argue—I do not necessarily agree—that it is ludicrous that the Government can introduce a measure that claims to abolish non-dom status with an exemption for offshore trusts, and that the Opposition are unable to push through an amendment that would remove it. That goes back to the point I made earlier when the Minister referred to a review-fest. That is one of the only tools the Opposition have in this situation, given the nature of proceedings.

I do not criticise that at all. We are where we are. It would be better if we were not here, in some regards, but we are. We are trying, with the tools available to us, to move the debate on. I understand the limited scope that the Opposition have to amend financial legislation, particularly on bringing more people into tax or raising revenue. That may have to be looked at, especially in the light of the Minister's concern that we are partying too much on this issue.

Ruth George: Given that the only reason for a trust going offshore seems to be to engage a lower rate of taxation, will my hon. Friend join me in asking the Minister what the reasons are for the exemption for offshore trusts and for opposing listing those offshore trusts to ensure we have greater transparency in our tax system?

Peter Dowd: That is a fair point. I will hang on every word the Minister says when he explains that today; he will have my full attention and concentration.

The convention of the limit on parliamentary scrutiny, particularly at a time when the Government do not have a parliamentary majority, risks enfeebling the Opposition by denying us the ability to properly scrutinise the Government and their financial legislation—essentially,

[Peter Dowd]

the ability to do our job. Here we are, with a limited armoury, and that is why we are asking for a review. It is important that this is as transparent and open as possible. This is the line I bring to the Committee and have put to the House a number of times: it is not a question of us, the Opposition, guarding the guards; it is a question of the public guarding the guards. That is why we have tabled this measure.

2.15 pm

Mel Stride: Again, it is a pleasure to serve under your chairmanship, Mr Walker.

Members of the Committee are now turning their attention to clauses 29 to 32, which with schedules 8 and 9 bring an end to permanent non-dom status in the United Kingdom. This historic change was announced by the Government at the 2015 summer Budget. The provisions were then introduced in the Finance Bill in the last Parliament, but were removed at the Opposition's request following the calling of the general election. At the time, the Government announced they would return to legislate these proposals at the earliest opportunity, and I am pleased to be able to deliver on that promise and introduce the changes from April 2017, as originally intended. I should perhaps pick up the comments by the hon. Member for Bootle, who suggested that the delays, such as they are, may in some way have favoured non-doms by delaying the introduction of these measures. These measures will be introduced, as we have always indicated, in April this year. In that sense, they are retrospective in a way in which I am sure he will approve.

As the Committee will be aware, individuals who are non-domiciled in the UK for tax purposes enjoy two significant advantages. The first is that where such individuals are resident in the UK, they have access to the remittance basis of taxation. That allows them to defer tax on any of their income and gains arising overseas until they are brought into the United Kingdom. The second big advantage is an inheritance tax rule, whereby those who are domiciled overseas need pay tax on only their assets that are situated in the UK, rather than on their assets worldwide. Those advantages have been a feature of the UK tax system for many years. As successive Governments have recognised, the advantages have played a big role in ensuring that the UK is an attractive place to live and work for people from around the world, and it should not be forgotten that non-doms have actually brought in around £9 billion each year in much-needed revenue for the Exchequer.

None the less, the Government recognise that there are some unfairnesses in the current rules for non-doms that need to be addressed. For example, the Government believe that it is unfair that someone can live in the UK for lengthy periods of time—in some cases, virtually their entire life—and continue to enjoy tax advantages that are not available to the vast majority of people who live and work in the UK. These provisions seek to address that unfairness, and I am sure that will enjoy cross-party support.

The changes being made by clause 29 will bring an end to the permanent non-dom status for the purposes of both income tax and capital gains tax. That means that from April 2017 anyone who has been resident in the UK for 15 or more of the previous 20 years can no longer be treated as a non-dom for tax purposes. They will instead be taxed in the same way as everybody else and pay tax on their worldwide income and gains. Likewise, anyone who was born here with a UK domicile of origin will also become deemed domiciled whenever they are resident in the UK. The clause fundamentally changes the way that non-doms pay tax in the UK, raising a further £1.6 billion over the next five years to fund our vital public services.

Clause 30 sets out how the deeming rules apply for the purposes of inheritance tax, ensuring that all those who become deemed domiciled under the new provisions are liable for UK inheritance tax in the same way as UK residents. Clause 31 ensures that individuals who become deemed domiciled under the new provisions pay the right amount of tax on any benefits they receive from overseas trusts that they set up while they were domiciled outside the UK. Finally, clause 32 ensures that a double charge is prevented by excluding gains that represent carried interest from the trust charging provisions.

The hon. Member for Bootle wants the removal of what he terms "the exemptions" from off-shore trusts for those who have become deemed domiciled under these new proposals. I assure him, and he should reflect on the fact, that any moneys coming out of those trusts for whatever purpose will be taxed once an individual becomes deemed domiciled.

There is also an important matter of proportionality here. As I have already indicated, the Exchequer raises around £9 billion per year from those who are non-domiciled in the United Kingdom. That is a huge amount of money, which goes some way to paying for our doctors and nurses, our armed forces and so on. These measures will raise a further £1.6 billion over the scorecard period, as I have indicated.

Ruth George: How can the Treasury be so sure of the projected future income of £1.6 billion when there is a loophole for transferring money to offshore trusts that could be used to avoid the taxation? How can those future projections possibly be calculated?

Mel Stride: I am clearly not in a position to share with the hon. Lady the entire ins and outs of all the intricacies of calculating such figures, but I can assure her that the numbers are looked at in great detail and are scored by the independent Office for Budget Responsibility. They are robust figures, albeit that no figures are entirely, absolutely guaranteed in cast iron ahead of time—but they are robust.

During the debate, the hon. Lady raised an important issue about transparency of trust arrangements. The UK is right at the forefront of greater transparency. We spearheaded an initiative to systematically share information on beneficial ownership arrangements with more than 50 countries. That will help law enforcement to unravel complex, cross-border changes in companies and trusts. Following our work with international partners, by September 2018 more than 100 jurisdictions will be sharing information with the UK under the common reporting standard, which will provide HMRC with taxpayer information from tax authorities around the world, enabling it to better target tax evaders.

That brings me to my next point. The hon. Member for Bootle would have us believe two things: that we are only on the side of the wealthy and that we are not actually that interested in clamping down on tax avoidance. On the first point, I remind the Committee that the top 1% of earners in this country pay 27% of all taxes. That is virtually at an historic high, and is certainly higher than was the case under the previous Labour Government.

Anneliese Dodds (Oxford East) (Lab/Co-op): Does that not reflect the wealth of the very richest in our society? Surely it would be more appropriate to assess the ratio of tax against their whole income and wealth. In that case, most studies would suggest that the very worst-off people pay much more of their income in tax than the very best-off. That figure does not suggest that we have a more progressive tax system—it does not give us any indication of the progressivity of the tax system.

Mel Stride: I hate to disagree with the hon. Lady, but I have to. If she checks something called the Gini coefficient, which is about income inequality—

Anneliese Dodds *rose—*

Mel Stride: I will give way to the hon. Lady. She is keen.

Anneliese Dodds: With all due respect, the Gini coefficient does not reflect the impact of tax on people's incomes. I repeat my point: if we are looking at the progressivity of the tax system, considering the overall tax that is contributed by the 1% is not helpful. The two are independent.

Mel Stride: With respect, the first point is that income inequality is at its lowest level for 30 years. That is a simple fact. Secondly, in terms of how progressive the tax system is, we are the Government that, since 2010, have raised the personal allowance to £11,500, which has taken about 3 million people out of tax altogether, and we have a manifesto commitment to raise that still further, by 2020, to £12,500. Much that we are doing is extremely progressive.

It is also a fact that the wealthiest 3,000 in this country pay as much tax as the poorest 9 million, just to put some of those figures into perspective.

Anneliese Dodds: That is clearly a reflection of very severe income inequality. If we focus on income, rather than on tax, which the Minister is trying to pull us towards, and look at the overall impact to the fiscal system, taking into account that fact that working tax credits are being folded into universal credit, we will see that the very poorest people in Britain are much worse off now than in previous years.

The Chair: Order. We will indulge the Minister with one more response. We might then have to make a little progress.

Mel Stride: A very quick one—perhaps we should leave it there, but no. The national living wage is another example of doing things for those who are less well-off. There are many things to consider.

David Linden (Glasgow East) (SNP): Does the Minister accept that the national living wage that he is trumpeting is in fact a con trick, because it does not apply to under-25s?

Mel Stride: I do not think that is true, because we have a national minimum wage that certainly applies to under-25s. However, as Mr Walker has suggested, we are probably going slightly beyond the scope—fun though it is—of the actual matter in hand.

The Chair: Just a tad.

Ruth George *rose—*

Mel Stride: I think I might make a little progress.

Ruth George: I was going to return to the matter in hand.

Mel Stride: If the hon. Lady will let me make a little progress, perhaps we will have time later.

Another point the hon. Member for Bootle raised was the suggestion that we are somehow slack or not concerned about tax avoidance. This Government have clamped down on avoidance to the extent that we have brought in £160 billion in revenue by clamping down on tax avoidance, evasion and non-compliance. We have done that despite his constant assertions that HMRC is under-resourced and incapable of acting. We are bringing in record levels of compliance income at the moment.

Peter Dowd: I think the Minister misrepresents what I was saying. I was trying to say that we need to push harder. The reality is that HMRC does as good a job as it possibly can given its resource. I suspect that if its resource were returned to the previous level, HMRC would do an even better job.

Mel Stride: Given the resource that HMRC has, which the hon. Gentleman suggests is inadequate, the tax gap—the amount of tax that we have failed to collect by not bearing down on avoidance—is at its lowest level for many, many years, including every year under the last Government. It is 6.5% compared with, I think, 8.3% in 2005-06. In terms of bearing down on avoidance, we are doing our bit.

Anneliese Dodds *rose—*

The Chair: Order. Everybody sit down for a bit. We have not heard the word non-domiciled for a long time. I would quite like to hear it.

Anneliese Dodds: I am grateful, Mr Walker. I was grimacing because I felt like I had to come back on the Minister's assertion, but we are talking generally about tax avoidance and evasion and we have had those general debates in earlier discussions. It is just that when specific claims are made, it is hard for the Opposition not to react and respond to them. To repeat points that we went around the houses on in earlier debates, the tax gap figures—as I know the Minister is aware, because he is very well-versed in these matters—do not cover problems related to profit-shifting, which many experts have suggested constitute a huge portion of taxes that are forgone. The element of error in the tax gap has increased.

The Chair: Order. I may not have a grasp of English, but I do have a grasp of this Committee, and it is trying my patience. Let us get back to the subject. I am very cross.

Mel Stride: Mr Walker, you are right, as you always are. Let me now turn to new clause 3, tabled by the Opposition, which is the subject of debate at the moment. The new clause would commit the Government to publish a review of the effects of the provisions for protecting overseas trusts from the deemed domicile changes set out in schedule 8.

The provisions outlined in schedule 8 relate to trusts that were created before an individual became deemed domiciled under the new rules. As I am sure members of the Committee will appreciate, many non-doms will have set up family structures in their home country long before they ever considered moving to the UK. That is an important point. The Government believe that it would be unreasonable to expect individuals in such circumstances to pay UK tax on all the money in such a structure as it arose. The provisions therefore protect such trusts from unintended consequences and ensure that the UK remains an attractive place for those individuals to live and work.

Let me be clear: even with those protections in place, those non-doms who do become deemed UK-domiciled will only be protected on income and gains that remain inside the trust. Any moneys withdrawn, or benefits provided, will lead to a tax charge.

The Government recognise that non-doms make an important contribution to the UK's economy. In terms of tax alone, as I have already stated, they contribute more than £9 billion to the Exchequer per year. It is therefore vital that these changes are not introduced in a way that would drive non-doms out of the UK altogether.

2.30 pm

Kirsty Blackman (Aberdeen North) (SNP): I promise that I will stick to the topic of the debate. For the avoidance of doubt, we will support the Opposition's new clause 3. I heard what the Minister said about previous family structures, but that does not give us enough reassurance that the system that is being set up for overseas trusts is the correct one.

Mel Stride: I thank the hon. Lady for making her intentions so clear.

These changes are fair, and they have been carefully considered and consulted on since they were announced more than two years ago. With regard to a review of the legislation, as stated in the tax information and impact note published in December 2016, HMRC will monitor the effects of the provisions through information collected in tax returns. I therefore urge the Opposition not to press new clause 3.

The changes introduced by clauses 29 to 32 and schedules 8 and 9 will bring an end to permanent non-domicile tax status. When people live in the UK permanently, it is right that they should pay the same tax as everyone else. This is the biggest and most fundamental change to non-dom taxation in history, and strikes the right balance between raising £1.6 billion of much-needed revenue and ensuring that the UK tax system remains internationally competitive.

Peter Dowd: In the light of what has been said today, we may want to tease out the matter of non-doms further at a later date, but let us be clear: there is nothing wrong with being a non-dom. It is not an illness or a disease. It is not something that we want to eradicate absolutely. We do not want to tell non-doms to go home or to go back to where they lived. This is not about that; it is about fairness in comparison with people who are not non-doms. That is what it comes down to.

We recognise that non-doms contribute to our economy. I do not think that anyone is denying that at all. Non-doms have existed in this country since Napoleonic times, in effect. That is the essence of their origin. After 200 years, we might think, notwithstanding the fact that we are coming out of Europe, that we should have done something about them sooner. The bottom line is that there is nothing wrong with being a non-dom. There are issues vis-à-vis the status of parents of non-doms, too, which we will no doubt come back to in due course.

We have made our point for today's purposes. As I alluded to, new clause 3 seeks to have a review in relation to non-doms. I do not think that there is anything wrong with asking for a review of how this proposal will work. That is our job, and we will persist with it. We are determined to raise this issue time and again.

The Chair: The Committee will be aware that new clause 3 will be moved later. I do not want anybody to feel disappointed or cheated.

Question put and agreed to.

Clause 29 accordingly ordered to stand part of the Bill.

Schedule 8 agreed to.

Clauses 30 and 31 ordered to stand part of the Bill.

Schedule 9 agreed to.

Clause 32 ordered to stand part of the Bill.

Clause 33

Inheritance tax on overseas property representing UK residential property

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider that schedule 10 be the Tenth schedule to the Bill.

Mel Stride: Clause 33 and schedule 10 introduce the final element of this historic package of non-dom reforms. As with the clauses that we have just discussed, it was our intention to include these provisions in the previous Finance Bill, and we are pleased to be able to introduce the changes from April 2017 as we originally intended. The changes will ensure that non-domiciled individuals who hold UK residential property through an overseas structure are liable for inheritance tax on that property, in the same way as UK residents.

The basic inheritance tax position is that a non-UK-domiciled individual is liable for UK inheritance tax only on the property in their estate that is situated in the UK. That has been the case since inheritance tax was first introduced.

However, it has long been fairly common practice for some individuals to take deliberate steps to avoid tax on homes they hold in the United Kingdom. Instead of owning UK residential properties directly in their own names, they set up an overseas company or partnership that has legal ownership of the property. They will often use overseas trusts as part of those structures. The effect of doing so is that the non-domiciled individual is no longer a UK homeowner; instead they own shares in an overseas company or an interest in an overseas partnership. In other words, by changing the structure of the way they hold UK assets—UK property is transformed into overseas property—they are no longer subject to UK inheritance tax.

The Government do not believe it is fair that non-doms with residential property in the UK can avoid paying UK inheritance tax in that way. That is why we are making changes to ensure that, from now on, they will pay the same tax as everybody else. The changes made by clause 33 and schedule 10 will ensure that individuals domiciled overseas pay inheritance tax on UK residential properties they hold through overseas structures. They will do so by looking through the overseas structures to the underlying UK property, bringing any share or interest into the scope of inheritance tax, even if those shares are overseas. In other words, the clause will ensure that an inheritance tax charge will arise wherever the value of such structures is derived from a residential property in the UK.

The clause closes a long-standing loophole that has allowed non-domiciled individuals to structure their assets to avoid inheritance tax on their UK homes. This change will ensure that non-dom individuals with residential property in the United Kingdom are treated the same way as everyone else, raising an estimated £250 million over the next four years.

Stella Creasy (Walthamstow) (Lab/Co-op): Having heard the Minister make a compelling case about the importance of ensuring that non-doms do not avoid paying tax, I look forward to the debate that we will have on new clause 2, which raises exactly the same issues about the treatment of commercial property as a way for non-doms to avoid residential property taxes. I look forward to the Minister supporting the new clause accordingly.

Mel Stride: Like the hon. Lady, I cannot wait to get to the matter at hand.

Question put and agreed to.

Clause 33 accordingly ordered to stand part of the Bill.

Schedule 10 agreed to.

Clause 34

Employment income provided through third parties

Question proposed, that the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

That schedule 11 be the Eleventh schedule to the Bill.

Clause 35 stand part.

That schedule 12 be the Twelfth schedule to the Bill.

Mel Stride: Clause 34 introduces schedule 11, which makes changes to ensure that businesses and individuals who have used disguised remuneration tax avoidance schemes pay their fair share of income tax and national insurance contributions. Clause 35 and schedule 12 follow on from clause 34 in tackling similar avoidance schemes used by the self-employed, introducing new rules to make those schemes ineffective and ensuring that individuals pay the tax they owe.

Disguised remuneration schemes claim to avoid tax and national insurance contributions by paying individuals through third parties in ways that promoters claim are not taxable, such as loans. These schemes are highly artificial, and it is the Government's firm view that they have never worked. The coalition Government began tackling the schemes in 2011, introducing legislation to successfully stop the schemes that existed at that time. Since then, HMRC has collected more than £1.8 billion in settlements from scheme users.

However, not every scheme user settled, and since 2011 the tax avoidance industry has created and sold more than 70 new and different schemes aimed at sidestepping the 2011 legislation. These schemes are generally more contrived and aggressive than those that existed before and are growing in popularity, including with the self-employed. These schemes deprive the Exchequer of hundreds of millions of pounds each year and have been used by up to 65,000 companies and individuals. The Government's firm view is that they do not work. We therefore need to take further action to tackle this avoidance and ensure that scheme users pay their fair share.

The Government introduced legislation in the Finance Act 2017 to put it beyond doubt that new employment income schemes are caught within the existing rules. Schedule 11 will tackle the existing use of schemes by introducing a new charge on loans outstanding from these arrangements on 5 April 2019. Affected scheme users can avoid the loan charge by repaying the loan and replacing it with a commercial loan, or by settling the tax due with HMRC. The Government will bring forward further measures in the coming year's Finance Bill to ensure that the rules are appropriately targeted.

Clause 35 will put it beyond doubt that these schemes do not work for the self-employed. Where there is an arrangement of this type, the receipt will be taxed as a trading receipt, no matter what form it is received in by the self-employed individual. The clause applies from 6 April 2017 to protect Exchequer revenue and ensure that scheme users pay their fair share. Schedule 12 introduces a new charge on loans outstanding from self-employed schemes on 5 April 2019 in a similar way to schedule 11.

It is right that everyone should pay their fair share of tax and make a contribution to public services. These changes will ensure that users of disguised remuneration schemes pay the tax they owe and will help to bring in more than £3 billion by 2020-21.

Anneliese Dodds: I will first address clause 34 and schedule 11 before moving on to clause 35, given that both were created at the same time. As I understand it, clause 34 and schedule 11 re-characterise loans as remuneration for tax purposes, but in some cases they would be doing so many years after the original transaction. The Opposition want to see change in this area, because abuses have been clearly documented.

However, this measure comes after a long period of relative inaction, at least in the areas where this legislation is focused. That has meant that many people believed the arrangements they entered into were legal and did not constitute tax avoidance. The April 2019 change in these circumstances could, some have opined to us,

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cause significant problems, for example to individuals whose situation has changed such that they no longer have the funds to meet the tax charge. How will the Minister ensure that this measure will not cause hardship or injustice to individuals who planned on the basis of previous arrangements, and how will that be balanced against the clear and pressing need to prevent the abuse, which the measure is targeted at?

Clause 35 and schedule 12 aim to tackle avoidance by the self-employed and those trading through a partnership, where their taxable income has been replaced by loans and other non-taxable amounts in order to avoid tax. The pertinent question is how to ensure that the measure is not overly wide-ranging. In particular, how will it be ensured that a transaction entered into in the ordinary course of business, and on commercial arm's length terms, is not caught within the definition of remuneration? The scope of the measure appears to be relatively wide, particularly when compared with others—for example, the Income Tax (Earnings and Pensions) Act 2003, which discards remuneration—where certain transactions are excluded, but they are not here. It would be helpful to have more specification on that.

Finally, there is a broader question: how will the Minister ensure that these measures are genuinely achieving their objective of ensuring that the full earnings of self-employment remain part of the individual's taxable income, subject to income tax and national insurance contributions, and that attempts to circumvent that position and still reward the individual are genuinely ignored?

Mel Stride: I thank the hon. Lady for her typically thoughtful contribution and important questions. She raised the issue of the retrospection or otherwise of these measures. We will certainly be looking at individuals who may have entered into these kinds of arrangements as far back as 1999. Critically, they have until 2019 to clean those arrangements up, if they wish to. If the schemes are legitimate and above board, they have no reason to be concerned because those schemes will stand the tests that we have set.

2.45 pm

Let us be clear about what we are looking at: clear tax avoidance. Put simply, an employer may decide that instead of paying an employee, an employee benefit trust or similar, they will make a supposed loan to the employee that they both know will never be repaid—perhaps the loan is not at a commercial rate of interest, or there are no payments of capital or interest throughout the time of the scheme. The net result is that the employee saves on their income tax and the employer saves on their national insurance payments. We need to be clear that clear abuse is wrong and we are stamping down on it.

The hon. Lady asked how we will meet our objectives and ensure that we are content. As with all significant revenue-raising measures, we will closely monitor the effect on behaviour as we follow these cases up. HMRC already has great experience of clamping down on these kind of activities. She asked how much might be raised and how we will know whether the measure is effective. She gave the example of people struggling to pay after being clamped down on. HMRC often confronts that circumstance in its line of work. People who are concerned about their ability to make a full payment of tax on time should contact HMRC at the earliest opportunity. It considers all requests for time to pay individually, based on the customer's financial circumstances. I hope that those comments address her points.

Question put and agreed to.

Clause 34 accordingly ordered to stand part of the Bill.

Schedule 11 agreed to.

Clause 35 ordered to stand part of the Bill.

Schedule 12 agreed to.

Clauses 36 and 37 ordered to stand part of the Bill.

Clause 38

First-year allowance for expenditure on electric vehicle charging points

Question proposed, That the clause stand part of the Bill.

Mel Stride: Clause 38 introduces a new tax relief to support the development and installation of recharging equipment for electric vehicles. The first-year allowance of 100% allows businesses to deduct charge point investments from their pre-tax profits in the year of purchase. To ensure that businesses could take advantage of the changes as soon as possible, the legislation had effect from the date of its announcement, which was 23 November 2016.

The Government are committed to encouraging the uptake of cleaner, more efficient vehicles that can help improve air quality in our towns and cities. We are doing that in a number of ways through the tax system. First, from 2020-21 company car tax rates for ultra-low emission vehicles will be lowered to 2% to incentivise uptake of the cleanest cars. Under the new vehicle excise duty system for cars registered after 1 April 2017, people with the cleanest zero-emission cars will pay nothing in first-year rates.

The availability of electric charge points is key to encouraging further take-up of cleaner vehicles by giving ULEV drivers greater confidence about where and how far they can drive. There are already more than 11,000 charge points at more than 4,000 locations in the UK, but more are needed. It currently takes at least 30 minutes to charge an ultra-low emission vehicle, which gives a range of between 50 and 100 miles, compared with 30 seconds to fill a petrol-powered car for a similar mileage range. We need to make charge points a more common feature on our roads in order to make electric cars a more convenient and reliable mode of transport.

Clause 38 supports the development and installation of electric charge point equipment by introducing a new tax relief for eligible expenditure on charge point infrastructure. Businesses that invest in electric charge points can deduct the expenditure from their pre-tax profits, thereby benefiting from a lower tax bill. The tax relief complements existing reliefs that encourage the use of cleaner vehicles, including the 100% first-year allowance for cars with low carbon dioxide emissions and the 100% first-year allowance for equipment used by cars powered by natural gas, biogas and hydrogen. It will help to increase the number of electric charge points on our roads, improving the infrastructure for electric car drivers and encouraging further take-up of low-emission vehicles for a cleaner environment.

Anneliese Dodds: We support measures to increase the uptake in electric vehicles, and we recognise that creating more electric vehicle charge points is a part of that. However, I would be grateful if the Minister addressed two questions.

First, as I understand it—he will correct me if I have the wrong end of the stick—the clause focuses on firms that invest at least £200,000 a year in plants and machines. Small business will not be able to take advantage of the same tax breaks, and I am concerned that that could create an imbalance. In town centres with a zero-carbon target—the first was in my home city of Oxford—businesses are required to use only electric vehicles or other zero-carbon modes of transport, so it is important that they are on a level playing field. Is there an imbalance? I may have misunderstood the legislation, but I would appreciate the Minister's thoughts.

Secondly, how does the policy relate to other measures within the fiscal system that aim to promote low-carbon technologies? The founder and CEO of the renewable energy investor Rockfire Capital states:

> "Increasing availability of charging for electric cars is all very good but the biggest challenge is making sure the energy used is as green as the cars. These measures are a drop in the ocean compared with what is actually required."

Removing the renewable energy exemption from the climate change levy has reduced the tax incentives for business to invest in large-scale renewable energy schemes. Green cars are only green if green energy is going into them.

Ruth George: Like my hon. Friend, I am pleased to see decent allowance made for expenditure on electric vehicle charge points. It is much needed, particularly in my rural constituency, where it will be difficult to install the infrastructure in a way that business can comply with. I echo her point about small businesses. I understand that the Automated and Electric Vehicles Bill may introduce a requirement for service stations to install electric vehicle charge points. Many service stations are independently owned; it seems particularly hard on them that they will not receive tax incentives for installing charge points, but larger companies will.

Will the Minister explain why the cut-off date is 31 March 2019 for corporation tax and 5 April 2019 for income tax? The technology is already being produced but will change constantly over the next few years. It is important to ensure that companies can consider the full range of technology coming on the market and adapt their charging points to the most successful and future-proofed. For that reason, it seems odd to include an arbitrary time limit. Can the Minister explain that?

Mel Stride: I have a direct answer for the hon. Members for High Peak and for Oxford East: the relief will be available to businesses of all sizes. I take on board the point made by the hon. Member for High Peak about her own constituents in that context.

The hon. Member for Oxford East raised the general issue of whether the electricity going through the charging points would be green enough. It is probably not the purpose of the Committee to determine that, but I certainly share her aspiration that we should encourage as much green energy as possible, which is why we are investing so much in the shift from traditional power generation to greener alternatives. She also quoted the suggestion that the number of charging points was a drop in the ocean, which is why we hope that such tax reliefs will help set up charging points as quickly as possible.

The hon. Member for High Peak also asked about the March and April dates for tax year ends for the different categories.

Ruth George: It was simply why the cut-off is there.

Mel Stride: I thought the question was about March and April. The reason for March and April was that individuals and companies have different tax year ends in that respect.

Ruth George: May I clarify? I was simply asking why there was a 2019 cut-off, not why there were two dates of 31 March and 5 April, which I think is fairly widely understood.

Mel Stride: I believe that is the review date—the point at which we would naturally want to look again at the issue and see how the roll-out has occurred.

Question put and agreed to.

Clause 38 accordingly ordered to stand part of the Bill.

Clause 39 ordered to stand part of the Bill.

Clause 40

Co-ownership authorised contractual schemes: capital allowances

Anneliese Dodds: I beg to move amendment 32, in clause 40, page 58, line 31, at end insert—

"262AG Review of operation of co-ownership authorised contractual schemes

(1) Within fifteen months of the passing of the Finance (No. 2) Act 2017, the Commissioners for Her Majesty's Revenue and Customs shall complete a review of the operation of the new provisions for co-ownership authorised contractual schemes.

(2) The review shall, in particular, consider the operation of these provisions in relation to master funds.

(3) In this section, "the new provisions for co-ownership authorised contractual schemes" means—

(a) sections 262AA to 262AF of this Act, and

(b) regulations made under sections 41 and 42 of the Finance (No. 2) Act 2017.

(4) The Chancellor of the Exchequer shall lay a report of the review under this section before the House of Commons within three months of its completion."

This amendment would make statutory provision for a review of the operation of the new provisions for co-ownership authorised contractual schemes.

The Chair: With this it will be convenient to discuss clauses 40 to 42 stand part.

Anneliese Dodds: As colleagues will have noted, the Opposition are requesting a review of the operation of the new provisions for co-ownership authorised contractual schemes. Authorised contractual schemes, previously referred to as tax transparent funds, can be established as either limited partnerships or co-ownership schemes, although this discussion will focus on the latter.

The schemes were introduced in 2013 to aid the establishment of UCITS—undertakings for collective investment in transferable securities—master funds in the UK. A number of the new rules appear relatively sensible from my perspective—for example, in clause 41, the provision of additional information by schemes

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to their investors—but I have some concerns, particularly about clauses 40 and 42. That is why we have suggested that a review would be helpful.

Clause 40 focuses on reducing the administrative burdens of such schemes. I am concerned that additional consideration should be given to the potential for tax avoidance now that the Government are loosening rules. Luxembourg and Dublin already provide tax transparent vehicles. Surely, in our focus on ensuring that Britain is an attractive destination for investment, we must ensure that our offer is based on our investment expertise and the investment opportunities available here, rather than any artificial factors. Furthermore, I do not feel from what I have examined that I have sufficient understanding of the rationale for enacting some of the provisions through secondary legislation. It would be helpful to understand how the Minister will ensure that the measures are discussed with an appropriate degree of accountability.

3 pm

Mel Stride: Before I respond to the amendment tabled by Labour Members, I would like to set out for members of the Committee the overall aims as they relate to this particular piece of legislation.

Clauses 40, 41 and 42 make changes to ensure that the tax system works effectively for investors in co-ownership authorised contractual schemes, which I will refer to as COACS for short. COACS are UK collective investment schemes authorised by the Financial Conduct Authority. They were introduced in 2013 to make the asset management industry more competitive internationally, to reduce industry costs and to increase returns to investors. These schemes are transparent for tax on income. That means that the income generated by the scheme is taxed on the investors, not on the scheme. Investors are taxed as if they had invested directly rather than through the scheme.

COACS have been welcomed by investors, which are predominantly institutions such as pension funds and life insurance companies. Following consultation last year, the Government are now making three changes to simplify the tax rules for investors in COACS and to align them with rules for other types of investment funds so far as is practical.

Amendment 32 would require HMRC to complete a review of the operation of COACS by early 2019. I reassure the hon. Member for Oxford East that the Government have consulted extensively on the measure. There was a formal consultation in summer 2016, in which the industry participated fully and constructively. The consultation process also included a well-attended open forum of interested parties in September 2016 to investigate and evaluate options. In addition, the Government have held regular discussions with industry representatives. It was in those discussions that the issue that clause 40 seeks to address was first highlighted. The Government will continue to engage with the sector on COACS and the practical implementation of the rules governing the schemes.

The hon. Lady referred to master funds, which are a fund structure where a fund has a number of separate feeder funds as its investors. They were not the subject of any response to the consultation, but HMRC stands ready to engage further with industry, should it have any questions related to COACS and master funds. The hon. Lady suggested that there may be a possible means of tax avoidance here. Income accruing to a master fund that is a co-ownership authorised contractual scheme is treated as the income of the investors, so UK investors cannot avoid tax on it. Clause 42 and its related secondary legislation will help to protect revenue. The measure as a whole is robust against potential tax avoidance, but HMRC will of course continue to be vigilant.

Kirsty Blackman: The Minister has been positive about the transference of accountability with COACS. I want to raise a query. Will he confirm that the changes being made will not erode the transparency and accountability of the scheme as it is? Will that be kept under review ?

Mel Stride: Absolutely. All these matters will be kept under review. It is not the Government's belief that the changes will erode the scheme; we believe that the changes will facilitate and ease the operation of these particular schemes to the advantage of pension funds and others that typically make use of them.

In the light of the extensive consultation held and the Government's continuing commitment to work with industry on the implementation of rules governing COACS, I hope that the hon. Member for Oxford East will withdraw the amendment.

I turn now to the background to the clauses. COACS are not subject to tax, but the operators of the schemes hold information needed by investors to complete their own tax returns and to claim any capital allowances to which they are entitled. The calculation of capital allowances falls in practice on the investors and can be extremely complex. In addition, operators hold information that would help HMRC to check that investors' tax returns are accurate, but at the moment there is no statutory requirement for COACS to provide tax information to either investors or HMRC. That is one example of the easements, from the investors' and HMRC's point of view, that the hon. Member for Oxford East may be interested in. Further, where a COACS holds investments in offshore funds, the rules that normally apply to ensure that offshore income is taxed appropriately on UK investors do not work as they should.

Clause 40 introduces new rules that allow the operator of a COACS to elect to calculate any capital allowances due, benefiting investors by avoiding the need to exchange large amounts of information with the operator of the COACS. The election can be made for periods that start on or after 1 April 2017. Clause 41 enables the Treasury to make regulations that will do three things to help to ensure that the right tax is paid on investments in COACS. First, the regulations will require the operator of a COACS to provide sufficient information to investors for them to complete their own tax returns. Secondly, they will require the operator to provide information to HMRC about the income arising to investors each year, and provide HMRC with a power to request copies of any other information provided to investors. Thirdly, they will impose penalties if scheme operators do not comply.

Clause 42 enables the Treasury to make regulations that will require a COACS that has invested in an offshore fund to ensure that all of the offshore fund's income is treated as its investors' income, regardless of whether it is actually distributed to them. This removes the risk of income rolling up offshore without being taxed as it arises. It also brings the treatment of investors in COACS into line with the treatment of UK investors in offshore funds generally.

These targeted measures will help to ensure that the tax system works efficiently for investors in COACS, and that they pay the right tax on their investments. I hope that the hon. Lady will withdraw the amendment, and that clauses 40, 41 and 42 will stand part of the Bill unamended.

Anneliese Dodds: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clauses 40 to 42 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.—(*Graham Stuart.*)

3.7 pm

Adjourned till Tuesday 24 October at twenty-five minutes past Nine o'clock.

Written evidence reported to the House

FB 17 An individual who wishes to remain anonymous

FB 18 Chartered Institute of Taxation further submission (clauses 60, 61 and 62, and schedule 14)

FB 19 Nathan Hamilton

FB 20 Taylor Wessing LLP